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SUBJECT: SUBJ: SUGAR WORKER EARN FAR LESS THAN THEIR UNION

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¶1. SUMMARY: Mexican sugar is one of the most expensive to produce in the world; costing on average almost 2 1/2 times more to produce than its most efficient competitors. A number of reasons exist for this cost difference but one of the most frequently cited causes is Mexico,s largest sugar workers union which is accused of being corrupt and is blamed for demanding "excessive" wages and benefits for its members. There is no doubt that this large union, as opposed to its rank and file workers, is doing very well. However, a closer look at conditions for the worker shows that they are not doing as well as their union (or its leaders). Add to this a complicated federal law which mandates artificially high prices and a startling lack of investment by mill owners and the reasons for the high cost of Mexican sugar go far beyond what could honestly be attributed to any wages or benefits being paid to the workers or their union. This is the second of two reports on the current state of affairs within Mexico,s largest sugar cane workers union, the Workers Union of the Mexican Sugar Industry (STIASRM).

THE HIGH COST OF MEXICAN SUGAR

¶2. The cost of producing Mexican sugar is one of the highest in the world. Brazil, which more or less sets the international standard for efficient productions cost, can produce a ton of sugar for approximately USD 15.00 per ton. That same ton of sugar costs USD 40.00 per ton produce in Mexico; or more than twice as much. The conventional wisdom in Mexico has long held that the high cost of sugar was due to (1) high prices mandated by a federal &Contract Law8 (CL) which artificially raised prices over and above the cost of normal market factors and (2) the supposedly high wages paid to the members of the Workers Union of the Mexican Sugar Industry (STIASRM).

¶3. Contract Laws (see Ref A) are a type of collective bargaining agreement negotiated by industry, union and government representatives. Since CLs are negotiated arrangements they are established for fixed periods of time and vary significantly from industry to industry. CLs establish minimum standards (which can include price floors for agricultural and/or manufactured products) that both employers and employees are expected to follow over and above the permanent guidance contained in Mexico,s Federal Labor Law. In theory CLs are periodically renegotiated like any

collective bargaining agreement but in practice they rarely contain any meaningful change.

¶4. Since taking office in December of 2006, the administration of Mexican President Felipe Calderon has steadily worked to modify some of the factors often blamed for the cost of Mexican sugar. In early October, after nine months of negotiations, the Calderon government, the mill owners, cane producers and the unions reached an agreement that is said to significantly change the CL that the sugar industry had been operating under without since 1936. As a part of the discussions to re-negotiate the sugar industry,s CL, significant give and take was agreed to with regard to wages and benefits for the sugar cane workers. As a result of this dual track negotiation, the official GOM position states that the members of the Sugar Workers Union are no longer seen as one of the main factors contributing to the high cost of Mexican sugar.

THE NEW SUGAR BAD GUYS

¶5. The chief culprits now being blamed for Mexico,s high sugar costs are the various elements of the industry,s production logistical chain and outdated technology. According to the GOM's Secretary of Agriculture, the main reason for the high cost of Mexican sugar are the fees charged by the individuals and firms that transport or warehouse sugar. Between them these middlemen reportedly raise the price of producing Mexican sugar from 5.5 pesos per kilo (approximately USD 0.51) to 12.00 pesos per kilo (approximately USD 1.12).

¶6. The other main bad guy according to the current official line is outdated technology. In some instances sugar mill plants are operated with 40 years old technology. Blaming technology is a polite way for the GOM to be politically correct; thereby allowing it to avoid saying that the mill owners have done little or nothing to modernize their industry. Reportedly this under investment or lack of investment will change as a result of the modifications in the sugar industry,s new Contract Law (Ref A).

¶7. None of the above elements should be taken to mean that the sugar workers and their union are completely blameless. For example, the new CL does not change the rules under which sugar workers can allegedly receive as much as three months of paid vacation per year. The workers have what mill owners consider a fairly generous retirement plan based on a collective bargaining agreement negotiated in 1998. The workers also reportedly get a fifty percent reduction in any and all sugar they purchase for &personal8 use as well as subsidized electricity for residential, union office use and for the schools where their children study. To be fair to the sugar workers, it must be acknowledged that these last benefits are not outside the norms that most other organized unions in Mexico have obtained for their members. That said, it can also not be denied that these benefits come at a price that ultimately adds to cost of production.

THE REAL TAKE HOME PAY OF A SUGAR WORKER

¶8. Reftel A outlined some of the good and bad points of Enrique Ramos Rodriguez, the leader of the STIASRM, Mexico,s largest sugar union. The STIASRM leader appears to personally oversee the income from two up-scale hotels constructed with union funds. In addition to controlling the income from these hotels the STIASRM leader is also said to either control or own outright two sports clubs, two sugar mills, two office building and 15 homes in Mexico City as well as an undetermined number of warehouses. The Mexican

media have gone into extensive detail on the perks, privileges and properties of the Secretary General of the STIASRM, but very little has been said about the real wages of the average sugar worker.

¶9. According to most union observers the labor component of producing Mexican sugar is only four percent of the total production cost. At the start of the dual track discussions that produced the new sugar industry CL in early October, the union had requested a 15 percent wage increase for the workers but it ultimately accepted a raise of only 4.5 percent. Ramos eventually saw the need to accept a lower wage for the workers (one of his good points) but he did so in exchange for a commitment from the mill owners to invest heavily in new plant and in worker training. According to the GOM,s Secretary of Agriculture these two steps should reduce the cost of producing Mexican sugar by as much as 15 percent.

¶10. These expected productivity improvements are to be applauded but even after the 4.5 percent wage increase sugar union workers do not earn particularly high wages. A general laborer in Mexico,s sugar industry (cane field or mill worker) earns 76 pesos per day (roughly USD 7.22). The maximum salary of a highly skilled sugar worker is 232 pesos per day (roughly USD 21.48). The highest daily wage of a senior worker employed just below the management level is 375 pesos per day (approximately USD 37.72). These salaries are all above the Mexican minimum daily wage (about USD 4.47) and by comparison these amounts earned by skilled sugar workers are substantial. However, the Mexican minimum wage is a very poor standard of comparison in terms of the quality of life a worker earning that amount could afford. The higher skilled workers are clearly better off than those at the bottom but these upper limit wages are not earned by the majority of sugar workers and even if they were a salary that amounts to under USD 38.00 a day can hardly be called lavish.

COMMENT

¶11. There is no doubt that STIASRM union members are better off than most agricultural and even some manufacturing laborers. That said, is it difficult to understand the long held view that the relatively modest wages cites above could realistically have been considered the most significant contributing factor to the high cost of Mexican sugar. The STIASRM and its leader (especially its leader) clearly deserve a share of the blame for high Mexican sugar prices but up until now they have been portrayed as much worse than they actually were. Now that the union and the workers are no longer the worst villains of the sugar industry the usual suspects, i.e. the middlemen, have moved more toward front and center. Interestingly, the mill owners and came producers have not seriously been singled out of a portion of the blame. These two private sector elements, and not the workers or their union, are the main beneficiaries of the price floors mandated by the Contract Law. In all probability, union wage and benefit demands were calculated with an eye on the guaranteed profits of the sugar industry,s private sector but such a negotiating tactic could be justified, from their perspective, as simply asking for what the market would allow.

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